HOUSING MARKET OUTLOOK
St. Catharines-Niagara CMA

CANADA MORTGAGE AND HOUSING CORPORATION

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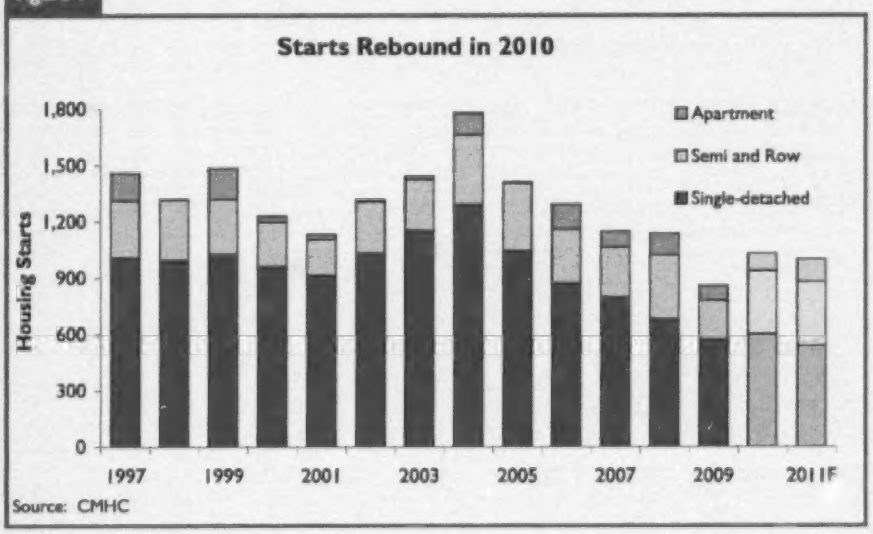
Market at a Glance

- Home sales will grow in Niagara reaching 6,200 units in 2010. The pace will decelerate through the second half of the year and into 2011 as mortgage rates gradually creep up.
- Starts will be up 20 per cent to 1,030 as new home construction will benefit from the tight resale market early in 2010 before moderating into 2011.

Figure 1



[1] The forecasts included in this document are based on information available as of April 23, 2010.

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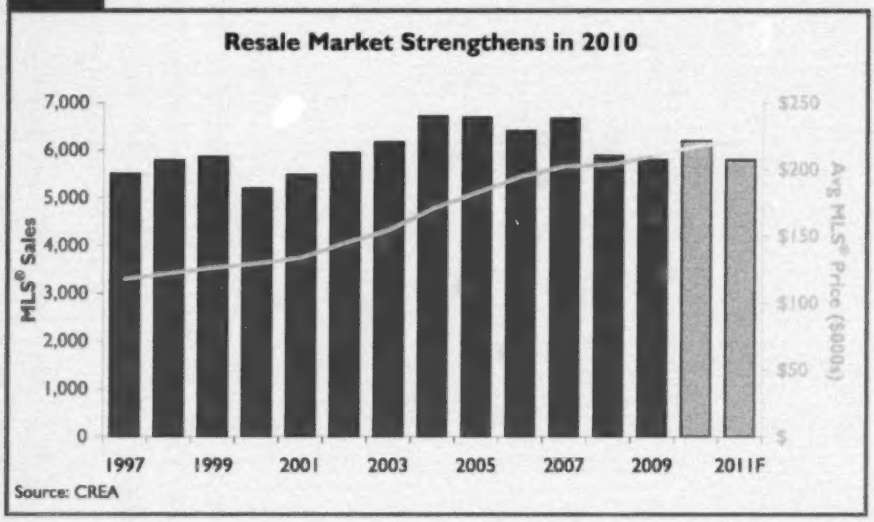
Figure 2



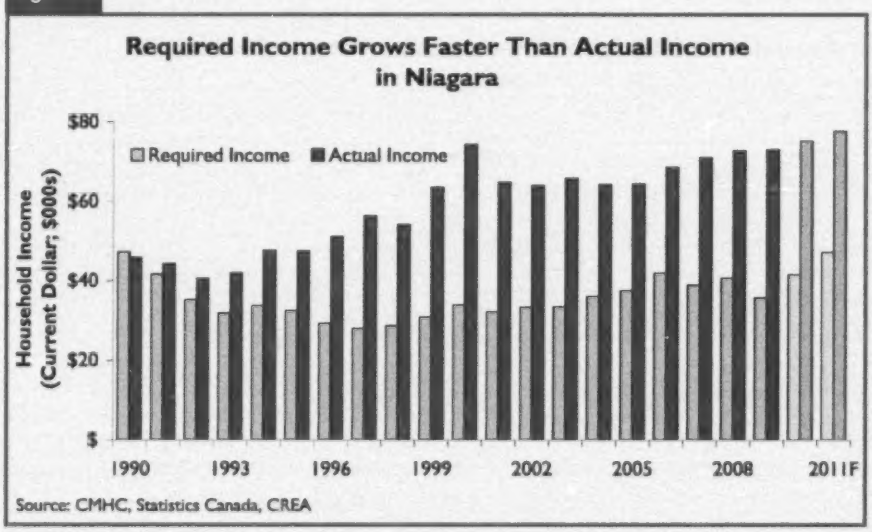
Resale Market

Resale Activity Will Abate

The very robust sales increase in the first four months of this year sets a high trend for 2010 and will pull up annual home sales not only above last year's level by nearly seven per cent, but also above levels in 2008. The rebound in sales since the second quarter of 2009 was triggered by the sharp drop in mortgage rates at the end of 2008, but accentuated in early 2010 by homebuyers' expectations that the period of unprecedented low mortgage rates would soon be over. Consequently, they made their purchases early in the year ("pulled forward" sales) to be sure to avoid the expected increases. The impending HST implementation may have also contributed somewhat to a shift in sales from the second to the first half of 2010, since it will raise most closing costs associated with an existing home purchase. Consequently, slowing sales will be the key trend in the resale home market for the rest of 2010 and into 2011. Rising mortgage rates and, to a lesser degree, rising prices will cause the gap between required[1] and actual income to narrow – contributing to a decrease in affordability.

New listings will rise nearly ten per cent in 2010 before easing somewhat in 2011. An increase in listings was triggered by rising prices and a return to the market by repeat buyers. A purchase by a repeat buyer usually generates a listing, which is not the case with first-time buyers. New listings will not be easing as quickly as sales as the year progresses. The surge in sales which began in 2009 was supported by the large number of first-time buyers attracted by the drop in mortgage rates. This pool of buyers will be shrinking, both because many potential first-time buyers will have completed their purchases and also because, with mortgage rates up, some will no longer qualify. However, the declining number of first-time buyers will have little impact on listings. With sales easing faster than new listings, price growth will be kept in check for the rest of 2010. On an annual basis, home prices will still advance four per cent due mostly to early year strength. In 2011, price growth will decelerate to less than one per cent, slower than the projected inflation rate.

Figure 3



[1] Required income is mortgage carrying costs on an average-priced MLS® home divided by 0.32 to reflect the usual 32 per cent gross debt service ratio. Mortgage carrying costs are calculated based on 10 per cent down payment, the forecast of posted fixed five-year mortgage rate and 35-year amortization for a mortgage loan.

Some of the moderation in the average price will be attributable to the type of homes being sold. Some of the recent upturn in prices occurred because the share of more expensive homes in total sales increased. This will change as mortgage rates reverse their course. Higher mortgage rates in conjunction with higher average prices will push up mortgage carrying costs. This will encourage buyers to purchase homes in lower price ranges, pulling down the average price. Despite the rise in costs, home ownership will remain more accessible in Niagara than in neighbouring areas.

New Home Market

Housing Starts Recover

Housing starts will rebound in 2010 after pulling back last year. Tight resale market conditions, low inventories and an improving economy will boost new home building activity above last year's low levels. In addition, expected mortgage rate increases and, to a lesser degree, tax changes have encouraged a "pull-forward effect" on sales and starts. Although, on average, 2010 new home construction will be strong, it will still trail pre-2009 levels. For 2011, housing starts are expected to decline slightly as the "pull-forward effect" will outweigh the impact of improving employment conditions.

So far in 2010, builders have focused on single-detached construction. About a quarter of singles built in the last two years have had price tags higher than $400,000, and there is a strong advantage to starting and completing as many of these homes as possible before the July 1 implementation of the HST. In the second half of the year, singles starts will ease and townhouse construction will pick up the slack. In the City of St. Catharines, which virtually ran out of land, intensive construction is the only viable option for residential construction. New subdivisions on abandoned industrial sites are encouraged by the city through tax rebates to cover the costs of clean-up of derelict properties. Condo development is also expected to pick up in the city through both conversions and new construction.

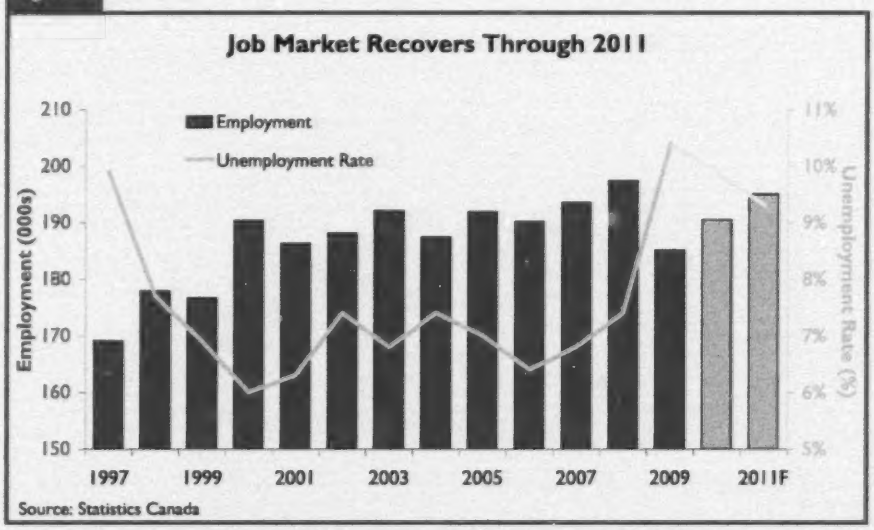
In 2009, by offering price concessions, builders were able to draw down the inventories of unsold units built up as housing demand slackened during the economic downturn. As the resale market tightens up and the new home segment strengthens throughout 2010, builders will be able to negotiate higher prices. The New Home Price Index (NHPI) for Niagara, which measures the prices at which builders sell new homes of equivalent quality, is projected to trend up again as labour and materials costs rise, after falling in 2009.

Economic Factors

Employment Set to Rise

Local employment is expected to expand by almost three per cent in 2010 and nearly another 2.5 per cent in 2011. Employment will outpace growth in the labour force - resulting in a declining jobless rate this year and next. During the recent economic downturn, the employment decline in Niagara was one of the most precipitous across the province. The area is relatively dependent on manufacturing and consequently more affected than other Ontario communities by weak global and US consumer demand, notably for automotive products. The job market shrank by almost ten per cent, touching bottom approximately a year after its all-time peak in March 2008. Consumer bankruptcies peaked around the same time but have declined since mid-2009 as labour market gradually strengthened.

Figure 4



Service Sectors Lead Employment Growth

Employment has turned the corner and has been in recovery mode since mid-2009 owing in most part to the high-tech, education and information sectors. Stronger consumer demand and a pick-up in tourism have also restored a lot of jobs in retail trade and services. A number of cafés, restaurants and retail shops have opened or re-opened. Research-oriented, video game and smart phone application design companies are just a few examples of private sector initiatives which are increasing employment in the region lately. A new performing arts centre is a public sector initiative which will bring jobs to the region both during construction and operation.

Challenges for Manufacturing Industry

Growing global demand for big ticket items has helped goods producing sectors draw down inventories through the latter part of 2009. In response, the Big Three auto makers have boosted production plans in North America to satisfy rising demand. A recent announcement by General Motors to infuse money into its St. Catharines engine plant is expected to boost production and bring back some manufacturing jobs. Lakeside Steel is another manufacturing company which announced that it would add production shifts to increase output at its Welland facility. However, higher unit labour costs in Canada, a high Canadian dollar and stronger US productivity are all headwinds for the goods producing sector in 2011 and will require further capital intensity in Ontario operations.

Slow Population Growth

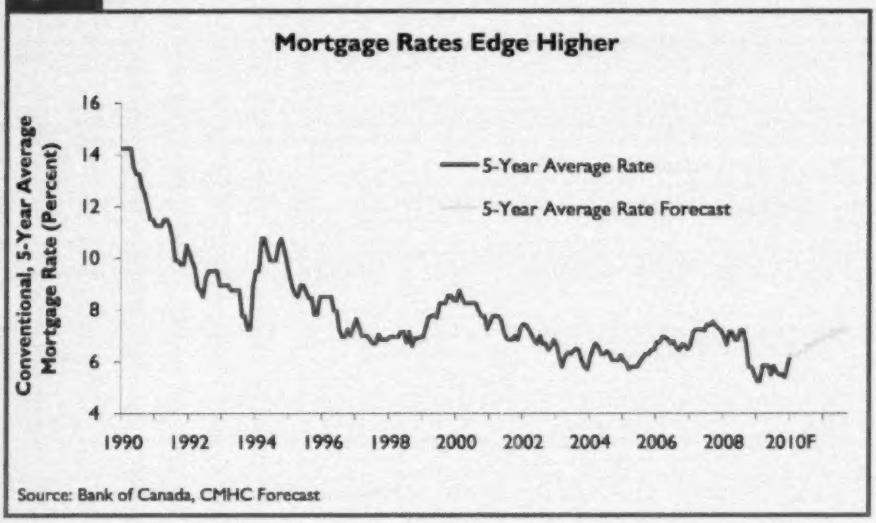
Population growth is an important driver of employment and housing demand. In the past few years, population growth was largely inhibited by the change in the direction of two of its components – natural increase and interprovincial migration. As the population in Niagara ages, the number of deaths has been increasing faster than the number of births. Natural increase – the difference between the two – is now contributing to population decline. Also, younger people have been increasingly migrating to oil-rich Western Canada which has offered better prospects for employment. Moving forward, migration is forecast to add more international migrants and fewer local residents will have to leave the area for other provinces as Ontario's economy is projected to grow at par with the rest of Canada. A more productive and diversified local economy will do a better job in retaining younger people in the local labour force.

Mortgage Rate Outlook

The Bank of Canada cut the Target for the Overnight Rate in the early months of 2009. The rate was 1.50 per cent at the start of 2009 and has since fallen to 0.25 per cent. Looking ahead, we expect that short-term interest rates will begin to rise in the second half of 2010.

With the overnight rate expected to increase in the coming months, mortgage rates have begun to rise. According to CMHC's base case scenario, posted mortgage rates will gradually increase throughout the course of 2010, but will do so at a slow pace. For 2010, the one-year posted mortgage rate is assumed to be in the 3.6-4.8 per cent range, while three and five-year posted mortgage rates are forecast to be in the 4.2-6.7 per cent range. For 2011, the one-

Figure 5



Source: Bank of Canada, CMHC Forecast

year posted mortgage rate is assumed be in the 5.0-6.0 per cent range, while three and five-year posted mortgage rates are forecast to be in the 5.6-7.2 per cent range.

Rates could, however, increase at a faster pace if the economy recovers more quickly than presently anticipated. Conversely, rate increases could be more muted if the economic recovery is more modest in nature.

Forecast Summary St. Catharines - Niagara CMA Spring 2010							
	2007	2008	2009	2010f	% chg	2011f	% chg
Resale Market							
MLS® Sales	6,668	5,896	5,808	6,200	6.7	5,900	-4.8
MLS® New Listings	11,710	12,428	11,691	12,800	9.5	12,500	-2.3
MLS® Average Price ($)	202,314	203,648	209,563	218,000	4.0	220,000	0.9
New Home Market							
Starts:							
Single-Detached	798	680	574	600	4.5	540	-10.0
Multiples	351	458	285	430	50.9	460	7.0
Semi-Detached	60	56	42	40	-4.8	40	0.0
Row/Townhouse	207	288	164	300	82.9	300	0.0
Apartments	84	114	79	90	13.9	120	33.3
Starts - Total	1,149	1,138	859	1,030	19.9	1,000	-2.9
Average Price ($):							
Single-Detached	342,933	375,998	368,423	385,000	4.5	390,000	1.3
New Housing Price Index (% chg.)	4.1	4.3	-0.6	2.5	-	2.0	-
Rental Market							
October Vacancy Rate (%)	4.0	4.3	4.4	4.4	0.0	4.1	-0.3
Two-bedroom Average Rent (October) ($)	765	777	804	820	-	835	-
Economic Overview							
Mortgage Rate (1 year) (%)	6.90	6.70	4.02	4.23	-2.67	5.56	1.54
Mortgage Rate (5 year) (%)	7.07	7.06	5.63	6.20	-0.87	7.06	1.43
Annual Employment Level	193,500	197,400	185,100	190,500	-	195,000	-
Employment Growth (%)	1.7	2.0	-6.2	2.9	-	2.4	-
Unemployment rate (%)	6.8	7.4	10.4	9.9	-0.5	9.3	-0.6
Net Migration [1]	-226	512	386	400	14	600	200

MLS® is a registered trademark of the Canadian Real Estate Association (CREA).

Source: CMHC (Starts and Completions Survey, Market Absorption Survey), adapted from Statistics Canada (CANSIM), CREA, Statistics Canada (CANSIM)

NOTE: Rental universe = Privately initiated rental apartment structures of three units and over; MLS® data includes the St.Catharines, Niagara, and Welland boards

(1) 2009 migration data is forecasted.

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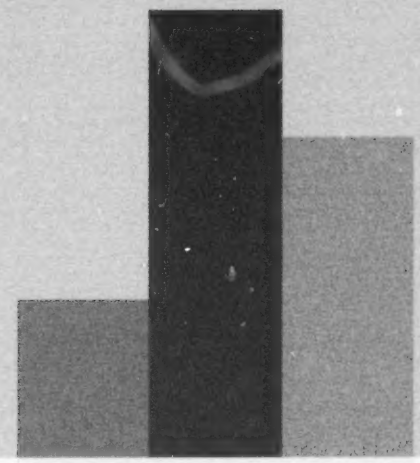

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